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Grain and Feed

Annual

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Report Highlights:

Marketing year (MY) 2002/03 was exceptional for the Argentine agricultural sector in general and for grain and oilseed farmers in particular. The 70% devaluation of the peso resulted in a tripling of income for commodity farmers with only modest and lagging cost increases. However, the transition to this prosperity was not completely smooth and all did not benefit equally. The economic chaos of the early months of 2002 led input producers to export their stocks to the detriment of the 2002 wheat crop which yielded only 12.5 million tons. Corn and soybeans, on the other hand, planted just two to three months later, experienced the double benefit of adequate inputs and uncommonly good weather. Post expects the yield of both corn and wheat in 2003/04 to return to more normal levels on very similar acreage, resulting in production of 15 and 14.5 million tons, respectively.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Buenos Aires [AR1], AR

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Executive Summary

What most analysts have referred to as "the worst economic crisis in Argentine history" in 2002 turned out to be a boon for the agricultural sector. The severing of the 10-year government-imposed one-to-one link to the U.S. dollar, a collapse of the credit system, the freezing of bank accounts, and a haphazard 70 percent devaluation of the peso greatly increased the profitability of all agriculture, and particularly for tradeable commodities such as grains and oilseeds. Many farmers also benefitted tremendously from the "pesification" (the transformation of value from dollars into pesos) of all their dollar debts. The sector responded remarkably rapidly to the crisis. For example, the absence of a functioning banking system led businesses to turn to the ancient practice of barter, with farmers buying new trucks and tractors with grain. Despite continuing economic and political uncertainty, and the widespread expectation that the 20% export tax on grain will be maintained if not increased, the near term outlook for Argentine grain and oilseed production appears to be historically bright.

The overall health of grain and oilseed sector is likely to allow farmers to stick to agronomically sound practices of crop rotation, despite the current superior profitability of soybeans. Thus, post expects grain area in MY 2003/04 to remain virtually unchanged, with the crops well managed. Wheat production should therefore increase significantly as a result to an estimated 14.5 million tons, recovering from the lack of inputs provided in MY 02/03. Corn, on the other hand, is expected to retreat somewhat from the exceptional yields of 02/03 which brought a crop of 15.5 million tons. Sorghum and rice area and production are also expected to remain relatively constant, though the rice sector is expected to continue to consolidate and become more efficient.

One caveat to post forecasts should be noted. The level of political and economic uncertainty in Argentina and their effect on agricultural production is such that there is an unusual and striking lack of consensus among industry analysts and producers over MY 03/04 planting intentions.

Section I. Situation and Outlook

Argentine producers are in their best financial position in many years. Following a 70 percent devaluation of the Argentine peso after 10 years of being fixed to the US dollar (one-to-one), profitability of exportable agricultural products such as grains and oilseeds has increased significantly. In addition, a combination of producers' debt being pesified (debts once in dollars were changed to pesos) lead to a copious use of inputs, and that combined with excellent weather conditions has produced record yields for many grains and oilseeds for this crop year. In the case that input prices become more of a concern for the upcoming crop year, wheat and in particular corn may appear less and less attractive to farmers compared to soybeans which require little inputs and are currently producing greater returns per hectare. Farmers report that returns per hectare for soy production may yield US\$ 100 per hectare higher than wheat and corn. The projection of some local experts that more land will shift into soybeans depends on whether or not farmers stick to their rotations.

Wheat

A significant production increase is anticipated for 2003/04 as the crop bounces back from the previous year's dismal yields. Economic instability was at its peak in the months just prior to planting. Because many input suppliers had exported their stocks in the chaos of early 2002, adequate inputs for wheat were not available, despite strong demand from farmers. Preliminary reports show yields in the main wheat-growing areas of southern Argentina are generally better than in the central growing area, where lack of rain has been an issue. After two poor years in the central area, it is thought that the prospect of planting wheat there is expected to decrease with planted area going up in the south.

Whether or not there is sufficient precipitation in April and May will greatly affect planting intentions for the upcoming year.

Planted area for wheat to be harvested in December 2003 is forecasted to remain steady at 6 million hectares. Prices appear to be relatively favorable and the option of double cropping wheat with soybeans has increased the profitability of planting wheat. Yields are expected to increase significantly from this year's low levels due to increased use of inputs. Total production is projected at 13.5 million tons.

With farmers in a better overall financial position, input use including chemical fertilizer in 2003/04 is expected to remain at adequate levels. While most farmers are continuing to market their previous year's crop to cover these costs, input suppliers are also offering credit to any dependable producer.

Feed Grains

Harvested area of corn for marketing year 2002/03 reached the same level as the previous year at 2.6 million hectares. Production, however, is expected to increase significantly from 14.7 to 15.5 million tons. The combination of excellent weather conditions and the availability of inputs at their time of application generated an increase of up to 30% in yields.

Area planted to corn and sorghum is expected to remain fairly stable next year (local marketing year 2003/04), though a decrease in corn production is projected as yields come down from a phenomenal 2002/03 crop that excelled from the opportune mix of inputs and weather. The excellent 2003 harvest and the continuing benefits from a floating peso have left farmers in an excellent financial condition to use adequate inputs again for planting the upcoming crop.

There is a differing of opinion in the industry regarding whether corn acres could shift into soybeans. Although profit margins for soybeans relative to corn are still greater at this time, farmers are reportedly still following their rotations in many areas. According to industry sources, this depends on the degree of political and economic uncertainty at the time of planting in October and level of export tax they are required to pay (it is currently at 20%). Corn acres have also been lost to soybeans in the last few years due to the increasing popularity of wheat and soybean double cropping.

Rice

More Argentine rice farmers appear to be jumping on the soybean bandwagon. Area planted to rice is expected to be down slightly at 130,000 hectares in 2003/2004. The devaluation, as for other tradeable crops, has increased the profitability of planting rice. However, the higher cost of production vis a vis soybeans and a lack of credit to finance the relatively high cost of producing rice is likely to lead to consolidation. Late harvest and untimely rains in October and November decreased profitability this year which may also drive some rice farmers to planting soybeans. Those who have switched in recent years do not appear to be switching back.

Section II: Statistical Tables

PSD Table						
Country	Argentina					
Commodity	Wheat				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		12/2001		12/2002		12/2003
Area Harvested	6800	6825	5900	5900	0	6000
Beginning Stocks	589	555	1139	565	699	575
Production	15500	15500	12500	12300	0	14500
TOTAL Mkt. Yr. Imports	12	10	10	10	0	10
Jul-Jun Imports	5	10	10	10	0	10
Jul-Jun Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	16101	16065	13649	12875	699	15085
TOTAL Mkt. Yr. Exports	10075	10500	8100	8100	0	9500
Jul-Jun Exports	11671	11000	7500	7500	0	7300
Feed Dom. Consumption	85	10	50	10	0	45
TOTAL Dom. Consumption	4887	5000	4850	4400	0	5085
Ending Stocks	1139	565	699	575	0	500
TOTAL DISTRIBUTION	16101	16065	13649	13075	0	15085

Table 1: Wheat Milled for Flour (Metric Tons)

Month	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002
December	363,291	387,003	354,006	357,483	377,457
January	388,939	390,326	360,099	386,078	367,247
February	381,875	355,535	365,611	363,449	358,940
March	419,931	395,926	408,199	388,872	390,031
April	402,160	413,005	368,979	375,330	397,248
May	413,065	423,849	404,574	419,176	403,204
June	417,352	381,302	396,574	410,920	403,699
July	439,188	429,970	414,232	423,919	427,647
August	417,046	372,733	415,817	404,314	402,350
September	398,810	365,603	386,444	375,271	362,326
October	389,435	356,159	355,132	370,481	392,485
November	372,331	359,087	358,259	384,766	386,299
Total	4,803,423	4,630,498	4,587,926	4,660,059	4,668,923

Source: Argentine Secretariat of Agriculture

Table 2: Flour and Pasta Exports (Wheat Equivalent)

Product	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002
Flour	645,000	525,000	511,000	489,000	343,976
Wheat Products	31,000	19,000	11,000	12,000	12,165
Total	676,000	544,000	522,000	501,000	356,141

Source: Argentine Customs Statistics (Indec)

PSD Table						
Country	Argentina					
Commodity	Corn				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		03/2002		03/2003		03/2004
Area Harvested	2450	2450	2450	2450	0	2600
Beginning Stocks	637	637	92	400	107	700
Production	14400	14700	15000	15500	0	15000
TOTAL Mkt. Yr. Imports	5	5	15	15	0	10
Oct-Sep Imports	2	2	15	15	0	10
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	15042	15342	15107	15915	107	15710
TOTAL Mkt. Yr. Exports	10800	10800	10500	11500	0	10500
Oct-Sep Exports	8581	8581	11000	10000	0	12000
Feed Dom. Consumption	2650	2650	3000	2200	0	3000
TOTAL Dom. Consumption	4150	4142	4500	3715	0	4510
Ending Stocks	92	400	107	700	0	700
TOTAL DISTRIBUTION	15042	15342	15107	15915	0	15710

PSD Table						
Country	Argentina					
Commodity	Sorghum				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		03/2002		03/2003		03/2004
Area Harvested	542	500	550	550	0	575
Beginning Stocks	446	446	446	446	396	396
Production	2750	2750	2750	2800	0	2800
TOTAL Mkt. Yr. Imports	0	0	0	0	0	0
Oct-Sep Imports	0	0	0	0	0	0
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	3196	3196	3196	3246	396	3196
TOTAL Mkt. Yr. Exports	450	450	600	600	0	500
Oct-Sep Exports	409	409	600	600	0	500
Feed Dom. Consumption	2200	2200	2100	2100	0	2200
TOTAL Dom. Consumption	2300	2300	2200	2200	0	2300
Ending Stocks	446	446	396	396	0	396
TOTAL DISTRIBUTION	3196	3196	3196	3196	0	3196

Section III. Supply and Demand, Policy and Marketing

Marketing:

The marketing of grain by producers has undergone a fundamental transformation over the past year. The government's freezing of accounts in Argentine banks, the closing of the futures market for almost five months, and the collapse of the credit system have created tremendous economic uncertainty. Farmers responded by hanging onto their grain by storing it in large plastic bags and selling it off piecemeal to cover immediate cash needs.

As a result, most producers prefer to store grain, or purchase in advance chemical inputs that will be needed in next year's crop, over holding cash in the bank. A plastic bagging system for storing grain, in particular for soybeans and wheat, has increased a great deal in popularity in the past two years. With this method, grain is stored in huge bags directly on the ground when silos and existing infrastructure have reached its maximum capacity. This increase in on-farm storage has increased even further the ability for producers to market their product.

Despite a slow return to normalcy in financing, and the re-opening and increased use of the futures market, many analysts expect significant on-farm storage practices to continue for the foreseeable future since both producer and traders are benefitting from this system. At current operation, trading levels at the futures market in Buenos Aires have only reached 10% of what was being traded two years ago and it is clear that there is still a lack of confidence in the system itself. However, since Argentine farmers do not receive production subsidies, the revival of the futures market to some extent is expected as local values of reference are needed to make planting and marketing decisions. While it is currently the only Argentine hedge market, some farmers are reportedly using the Chicago grain exchange.

High Yielding Wheat Varieties:

"Baguette" varieties that were planted for the first time in marketing year 2001/02. There have been some concerns with the fungus fusarium attacking the plant and affecting the quality of the kernel, and additional input requirements have to some degree discouraged use by some farmers. Nevertheless, it is approximated that 10-15% of the wheat market is using these varieties, and area planted with them appears to have remained stable.

Wheat Consumption and Stocks

According to statistics published by the Argentine Secretariat of Agriculture, 4.67 million tons of wheat were milled for flour in marketing year 2001/02. Of this amount, 356,000 tons of flour and pasta (wheat equivalent) were exported. A factor which confuses the domestic stock situation is the incentive that continues to exist for selling product on the black market. Industry analysts note that the 21% value added taxes (VAT) and the 35% income tax rate in the face of lax tax enforcement are strong incentives for farmers and flour millers to operate in the black market, and estimate that 20% of wheat production, often in the form of flour, falls in this category.

Agricultural Credit

Agricultural credit also underwent a fundamental transformation in 2003/04. The pesification of dollar denominated debt had the effect of reducing by 70% amounts owed to creditors. Combined with a tripling of peso income, many farmers were able to completely pay off their debts. At the same time, input suppliers, who have traditionally been a key source of credit to many producers, and were put at great risk by the government policy on debt, were able to renegotiate repayment of dollar debts with farmers at a 70-80% rate.

PSD Table						
Country	Argentina					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		04/2002		04/2003		04/2004
Area Harvested	120	120	135	135	0	130
Beginning Stocks	107	107	138	138	58	65
Milled Production	410	410	475	410	0	455
Rough Production	631	631	731	631	0	650
MILLING RATE (.9999)	6500	6500	6500	6500	0	7000
TOTAL Imports	11	11	15	10	0	10
Jan-Dec Imports	11	11	15	10	0	10
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	528	528	628	558	58	530
TOTAL Exports	150	150	325	220	0	225
Jan-Dec Exports	233	233	300	225	0	200
TOTAL Dom. Consumption	240	240	245	273	0	240
Ending Stocks	138	138	58	65	0	65
TOTAL DISTRIBUTION	528	528	628	558	0	530